

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON UMZIMKHULU MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the uMzimkhulu Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the uMzimkhulu Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the uMzimkhulu Municipality at, and for the year ended, 30 June 2011.

Unauthorised expenditure

9. As disclosed in note 37 to the financial statements, unauthorised expenditure amounting to R33,233 million was incurred, as a result of poor budgeting process.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

11. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited the schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information* (FMPPI).

The reliability of the information in respect of the selected objective is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

15. The material findings are as follows:

Usefulness of information

Consistency

Reported indicators not consistent with planned indicators

16. The Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), section 41(c) requires that the annual performance plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 23% of the reported indicators are not consistent with the indicators as per the approved annual performance plan. This is due to management not following the process of amending the IDP as stated in MSA section 27 to 32 and limited review and monitoring on the completeness of reported documents by management, audit committee and internal audit.

Reported targets not consistent with planned targets

17. Section 41(c) of the MSA requires that the annual performance plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 64% of the reported targets are not consistent with the targets as per the approved annual performance plan. This is due to management not following the process of amending the IDP as stated in MSA section 27 to 32 and limited review and monitoring on the completeness of reported documents by management, audit committee and internal audit.

Compliance with laws and regulations

18. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Budgets

19. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

21. Awards were made to service providers who are persons in the service of other state institutions or whose directors/ principal shareholders are persons in service of other state institutions, in contravention of SCM Regulation 44.

Expenditure management

22. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

Landfill site

23. The municipality operated their waste disposal site without a waste management license or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989).

Internal control

24. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Financial and performance management

25. Management did not perform adequate review of financial and performance information to support complete, reliable and accurate financial and performance reporting.
26. The PMS Manager did not ensure that the indicators and targets are consistent when reporting on performance information.

Governance

27. The internal audit and audit committee did not perform a detailed review of the annual financial statements and the performance report.

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence